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Daniel Cawrey

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NEWS

Compared to other types of startups, entrepreneurs planning to form a



How many people do you think own bitcoin?

- 0 - 5 million
- 5 - 10 million
- 10 - 25 million
- 25 - 50 million
- 50 million +

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Features

bitcoin company, and make a success of it, face a unique set of obstacles.

While social media or data analytics startups may be able to forgo consulting legal advice at the outset, those forming virtual currency-related ventures need to think about putting a legal strategy in place very early on.

One of the most prominent law firms representing businesses in the bitcoin space is [Perkins Coie](#). Amid the [many areas of law](#) it practices in, one of its specialties is helping bitcoin companies get up and running with virtual currency legal consultation and advice.

Perkins Coie currently represents between 40-50 bitcoin companies, a number driven by the firm's relatively long experience and network of contacts in Silicon Valley.

[Lowell Ness](#), partner at the firm and former corporate lawyer, now spends his time in the firm's Companies and Venture Capital Group assisting cryptocurrency startups.

He represented Andreessen Horowitz during its [investment in Coinbase](#) late last year, when the company, along with a group of other investors, provided a Series-B round of [\\$25m](#) – the largest bitcoin investment so far at the time.

Ness told CoinDesk that Perkins Coie's experience in this area have made them the go-to lawyers for bitcoin startups:

"We really were the first guys doing this. We've been probably doing this for three years. Everybody's our client."

Legal representation

Ness said that venture capitalists will always require some sort of compliance-related framework before investing their money in bitcoin startups:

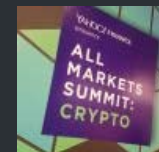
"[It's] almost impossible to get funding without having some kind of stamp of approval from a law firm saying there's some regulatory strategy in place."



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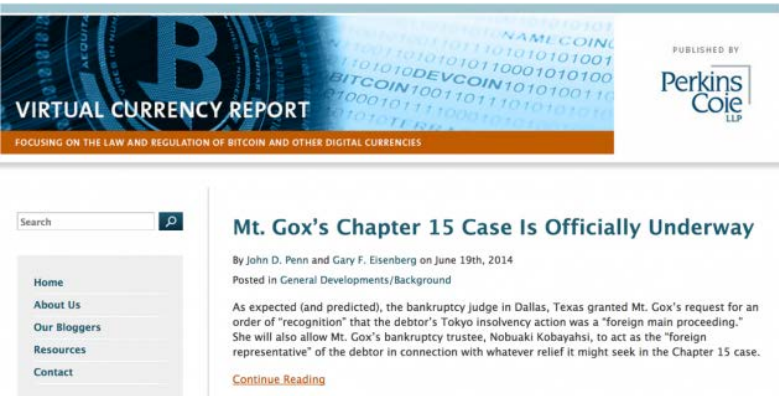


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Perkins Coie often serves these new businesses in an angel-type of role, he explained, spending time reviewing a startup’s business concept and offering legal advice, before introducing the founders to potential investors.



Perkins Coie publishes a legal blog relating to the digital currency space – the [Virtual Currency Report](#)

For this work, the firm takes a small stake in these early-stage ventures. “I would say we’re an investor and that’s part of the reason why we look for equity in the companies,” said Ness.

So, instead of asking for fees, which new startups may not be able afford, Perkins Coie takes a piece of the pie in the hopes the fledgling company will succeed – a similar strategy to that taken by VC investors.

Additionally, because there are so few successful exits in the bitcoin space, Perkins Coie has adopted a policy of going for startups in volume.

“That’s the game in Silicon Valley, it’s a numbers game. You ultimately have to bring in lots and lots of clients to make the numbers work,” Ness explained.

Finding bitcoin startups

Perkins Coie spends a lot of time at events in search of bitcoin startups to represent. The law firm even sponsored the [Bitcoin Fair](#) in San Francisco a few months back, and hosted the [Stanford Bitcoin Meetup recently](#).

“We go to a lot of conferences,” Ness said. “It’s amazing how difficult it is to attend all of the conferences. Some of them are happening on the same day.”

Jacob Farber, senior counsel at Perkins Coie, often represents the firm at conferences, speaking on panels [regarding bitcoin regulation](#). He has also provided his time to the Plug and Play incubator [as an expert mentor](#) for bitcoin-related startups.

Startup accelerators are another way that Perkins Coie finds new clients, often helping with the legal work involved in setting up an investment fund for early backing.

Ness says that the growth in accelerators accepting bitcoin companies is a positive sign:

“It’s good. It’s healthy. This is what happens every time when something gets hot. I think it was big data just before bitcoin.”

When Perkins Coie and venture capitalists are looking at startups, talent trumps the idea, every time, he indicates. A solid team of founders is what investors are looking for, and so those are the businesses the law firm wants to represent.

“If you can find guys that are really smart, whether the idea has merit or not, those are the guys likely to figure it out,” explained Ness.

Heavy investment

The pace of venture investment in bitcoin-related companies has risen by [an impressive amount in 2014](#) – up 30% over last year at this point.

Biggest Fundraising Rounds 2014

Close Date	Company	Classification ▼	Round Size (\$m)
Sunday, March 16, 2014	OKCoin	Exchange	10
Friday, May 30, 2014	BitFury	Mining	20
Tuesday, May 13, 2014	BitPay	Payment Processor	30
Wednesday, March 26, 2014	Circle Internet Financial	Universal	17
Thursday, March 13, 2014	Xapo	Wallet	20

Source: [CoinDesk](#)

There is a network effect involved here: investors not yet on the bitcoin bandwagon see companies receive funding and experience success, which draws more investment money into the space.

“I think it’s going to be healthy for the whole bitcoin community to start to

see some of these guys that are really going to be successful. We're starting to see a lot of top-shelf VCs getting interested," said Ness.

Venture capitalist Tim Draper's recent investment in the [entire lot of seized Silk Road bitcoin](#) auctioned off by the US government has also brought bitcoin into the limelight.



Investment in bitcoin financial services startups. Source: [Venture Scanner](#)

And funding rounds for companies such as [BlockScore](#) and [BitFury](#) of late show that investors are willing to make bets on less conventional cryptocurrency business ideas, such as identity verification and mining.

Banking and regulation

Despite a positive mood in investment circles, Ness believes uncertainty over the regulation of bitcoin companies will continue to bring unpredictability to the industry:

"Even with a lot of deal flow around bitcoin companies, I think that regulatory uncertainty is the thing that is going to be most difficult for early companies to deal with."

In terms of regulatory ambiguity, Ness says that there are divergent issues to be considered legally between, say, a bitcoin accounting startup and bitcoin exchanges. "There's definitely a difference," he said. "[Exchanges] really are displacing banks and need to fulfil a role banks play in the money system."



VC Investment in bitcoin exchange/wallet startups. Source: [Venture Scanner](#)

The big problem right now, especially for exchanges (and some wallet providers) that might be considered money transmitters, is there are

50 different US states, which may have different laws and licensing requirements, and there are therefore a multitude of regulatory issues to deal with. And that comes at a cost.

Ness estimates that startups which need to go through getting licensed in each US state would have spend two years and at least \$1m to make that a reality.

That's time and money startups simply do not have. And it's likely that this issue is conflicting for the banking industry as well. Banks are not yet embracing virtual currency businesses, possibly due to reluctance to work with inexperienced firms, which creates further hurdles for bitcoin startups.

Ness pointed out:

"What it really boils to the fact that bitcoin companies are novices. Banks have all sorts of really stringent requirements. And they just can't trust a startup company to do things the way they need them to do."

Even in the face of such challenges, Perkins Coie has been helping bitcoin startups navigate uncharted waters for several years already – a long time in the world of cryptocurrencies.

In the future, the firm sees promise in cryptographic systems that track ownership and proof in distributed form. "The technology is solid, and the opportunity is vast. It's really a new paradigm for the way to do a lot of different things," said Ness, adding:

"The promise is really great, down the road."

Note: Startup investment charts only demonstrate VC funding. Charts do not necessarily reflect companies represented by Perkins Coie.

[Justice scale image](#) via Shutterstock

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